

CITY OF POCAHONTAS, IOWA

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

City of Pocahontas, Iowa

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City of Pocahontas, Iowa

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City of Pocahontas, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
George Tuttle	Mayor	Jan 2006
Rod Stoulil	Council Member	Nov 2006
John Dewall	Council Member	Jan 2006
Brooks Taylor	Council Member	Jan 2006
Kent Wood	Council Member	Jan 2008
Gus Holzmueeller	Council Member	Jan 2008
Greg Fritz	City Administrator	Appointed
Joan Dewall	Clerk	Jan 2006
Jeff Johnson	Treasurer	Appointed
James W. Hudson	Attorney	Appointed
Dr. Dennis Dahl	Airport Commissioner	July 2006
Gary McCarten	Airport Commissioner	July 2006
Dennis Marten	Airport Commissioner	July 2008
Ray Krips	Airport Commissioner	July 2008
Norman Hartsock	Airport Commissioner	July 2009
Nancy Kopriva	Library Trustee	July 2008
Donna Dewall	Library Trustee	July 2008
Jada Hallberg	Library Trustee	July 2008
Walter Cooke	Library Trustee	July 2009
Don Beneke	Library Trustee	July 2005
Dennis Fitzgerald	Library Trustee	July 2005
Charles Ahlrichs	Library Trustee	July 2005
Pat Spangler	Library Trustee	July 2010
Martie Nedved	Library Trustee	July 2010

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pocahontas, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Pocahontas' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above do not include financial data of the Pocahontas Community Hospital, which should be included in order to conform with U.S. generally accepted accounting principles. The omitted component unit is audited by other auditors and is not yet complete. The amounts that should be included in these financial statements are not known.

In our opinion, except for the omission of the financial data of the Pocahontas Community Hospital, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities,

each major fund and the aggregate remaining fund information of the City of Pocahontas as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 18, 2005 on our consideration of the City of Pocahontas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 27 through 29 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pocahontas' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (none of which are presented herein) and expressed qualified opinions on those financial statements. Our opinions were qualified because the transactions of the Pocahontas Community Hospital were not included. Other supplementary information included in Schedules 1 through 7, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cornwell, Frideres, Maher & Associates, P.C.
Certified Public Accountants

July 18, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Pocahontas provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

This is the second year of using new reporting standards. Comparisons to last year's report may help explain the City's financial position and results of operations.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities included \$1,484,647 in Governmental Funds, \$3,836,354 in Proprietary Funds, and \$636,181 in Airport Funds for total revenue of \$5,957,182. These revenues include proceeds from long term debt.
- Disbursements included \$1,871,938 in Governmental Funds, \$4,100,709 in Proprietary Funds, and \$719,335 in Airport Funds for total expenditures of \$6,487,982. These disbursements include long-term capital improvement projects.
- The City's total cash basis net assets decreased \$537,800. The majority of the decrease was due to several large capital expenditures that were made during the fiscal year.
- The City issued \$1,430,582 in water and sewer revenue debt.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine

whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the electric, water, and sewer funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

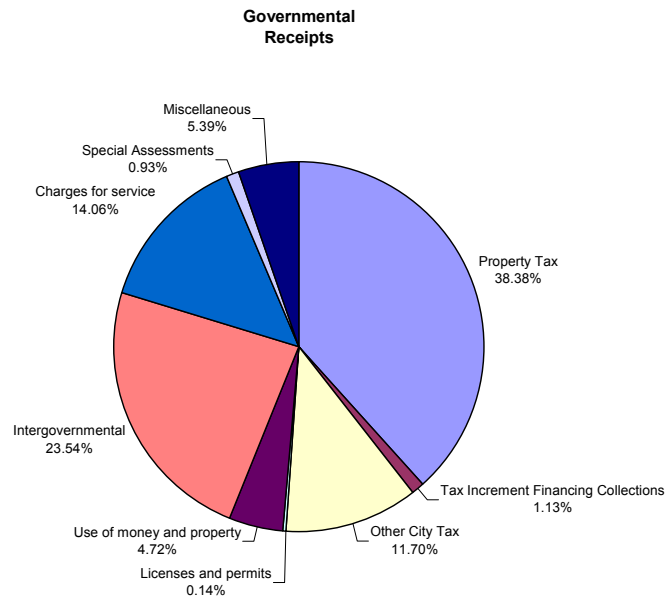
The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

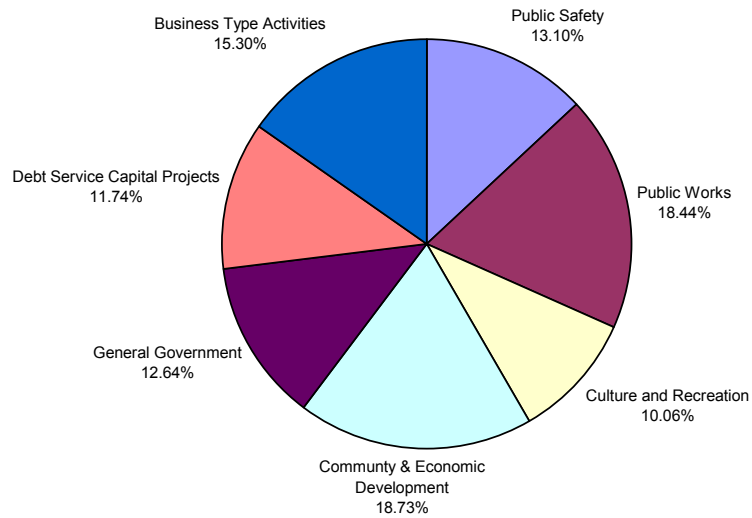
GOVERNMENT-WIDE FINANCIAL ANALYSIS

Governmental Activities

Total receipts were \$1,484,647 and disbursements and transfers were \$1,871,938. The following pie charts show a breakdown of receipts and disbursements for the last fiscal year.



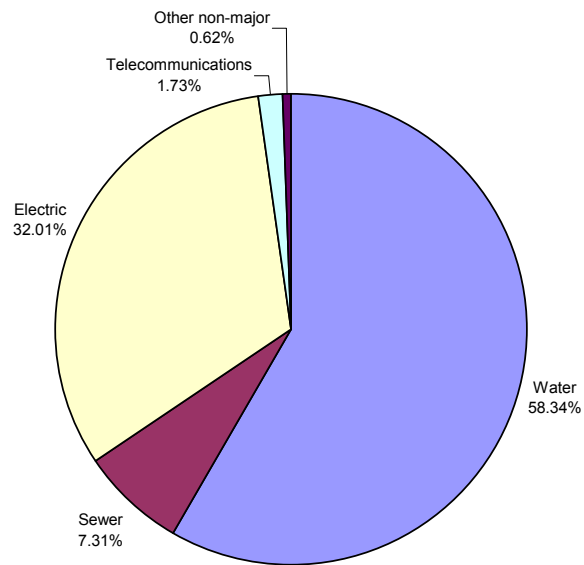
Governmental Disbursements



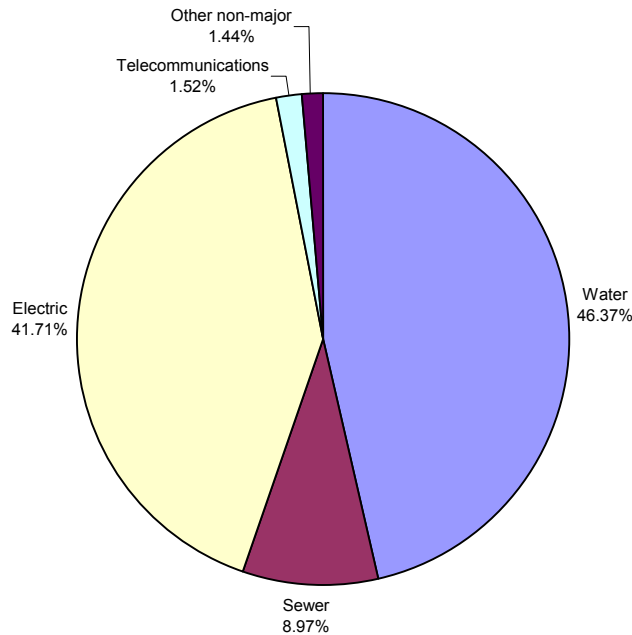
Proprietary Activities

Total receipts were \$3,836,354 and total disbursements and transfers were \$4,100,709. The following pie charts show a breakdown of receipts and disbursements for the last fiscal year for the city's proprietary activities.

Proprietary Receipts



Proprietary Disbursements & Transfers



BUDGETARY HIGHLIGHTS

In addition to expenditures for normal operating items such as police and fire protection, utility services, snow removal, swimming pool, etc. the City of Pocahontas has several major capital projects underway. These capital projects include improvements to the airport, an electric generator project, construction of a new water treatment plant and well, improvements to the wastewater treatment plant, and the purchase of land for a residential subdivision.

Over the course of the year, the City amended its budget one time. The amendment resulted in an increase in operating revenues and disbursements related to the economic development, water improvements, sewer improvements, and airport projects. The city is using federal and state grants, loan proceeds, and cash reserves to finance these projects.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$3,300,582 in bonds and other long-term debt. This debt included \$1,275,000 in General Obligation debt and \$665,000 in Electric Revenue Bonds.

During the previous fiscal year the City Council approved two loan agreements under the State of Iowa Revolving Loan Fund program. The first loan agreement for \$1,615,000 is being used to finance water improvements including a new water treatment plant and a new well. The second loan agreement for \$1,200,000 will be used to finance improvements to the city's wastewater treatment plant. During this

fiscal year the City borrowed \$1,418,582 for water improvements and \$12,000 for sewer improvements from these loans. The City anticipates borrowing an additional \$196,000 for water improvements and \$600,000 for sewer improvements during the next fiscal year from these loans. Revenue generated from water and sewer services will be used to repay these loans.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,275,000 is significantly below its constitutional debt limit of \$2,543,670. Revenue bonds and loans are not subject to the 5% limit.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Joan DeWall, City Clerk, or Greg Fritz, City Administrator at 23 West Elm Avenue, Pocahontas, Iowa.

Basic Financial Statements

City of Pocahontas, Iowa

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2005

		Program Receipts		
		Charges for	Operating Grants, Contributions, and Restricted	Capital Grants, Contributions, and Restricted
	<u>Disbursements</u>	<u>Service</u>	<u>Interest</u>	<u>Interest</u>
Functions/Programs:				
Governmental activities:				
Public safety	\$ 245,152	1,707	1,488	-
Public works	345,215	184,893	163,832	-
Culture and recreation	188,266	22,497	10,970	-
Community and economic development	350,567	-	-	154,264
General government	236,556	2,005	7,403	-
Debt service	219,784	-	10,914	-
Capital projects	<u>286,398</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>1,871,938</u>	<u>211,102</u>	<u>194,607</u>	<u>154,264</u>
Business type activities:				
Water	1,864,430	356,000	-	474,528
Electric	1,588,796	1,176,898	-	-
Other non-major	<u>443,483</u>	<u>345,395</u>	<u>-</u>	<u>4,310</u>
Total business type activities	<u>3,896,709</u>	<u>1,878,293</u>	<u>-</u>	<u>478,838</u>
Total primary government	<u>\$ 5,768,647</u>	<u>2,089,395</u>	<u>194,607</u>	<u>633,102</u>
Component Unit:				
Airport authority	<u>\$ 719,335</u>	<u>12,514</u>	<u>-</u>	<u>596,233</u>

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Primary Government			Component
Governmental	Business Type		Unit
<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Airport</u> <u>Authority</u>
(241,957)	-	(241,957)	-
3,510	-	3,510	-
(154,799)	-	(154,799)	-
(196,303)	-	(196,303)	-
(227,148)	-	(227,148)	-
(208,870)	-	(208,870)	-
<u>(286,398)</u>	<u>-</u>	<u>(286,398)</u>	<u>-</u>
<u>(1,311,965)</u>	<u>-</u>	<u>(1,311,965)</u>	<u>-</u>
-	(1,033,902)	(1,033,902)	-
-	(411,898)	(411,898)	-
<u>-</u>	<u>(93,778)</u>	<u>(93,778)</u>	<u>-</u>
<u>-</u>	<u>(1,539,578)</u>	<u>(1,539,578)</u>	<u>-</u>
<u>(1,311,965)</u>	<u>(1,539,578)</u>	<u>(2,851,543)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(110,588)</u>

(continued)

City of Pocahontas, Iowa

Exhibit A

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2005

	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			Component
	Primary Government			Unit
	Governmental	Business Type		Airport
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Authority</u>
General Receipts:				
Property tax levied for:				
General purposes	\$ 454,559	-	454,559	-
Tax increment financing	16,831	-	16,831	-
Debt service	126,078	-	126,078	-
Local option sales tax	159,164	-	159,164	-
Unrestricted interest on investments	28,489	30,043	58,532	459
Miscellaneous	139,553	39,749	179,302	26,975
Bond proceeds	-	1,402,431	1,402,431	-
Transfers	<u>197,000</u>	<u>(197,000)</u>	<u>-</u>	<u>-</u>
Total general receipts and transfers	<u>1,121,674</u>	<u>1,275,223</u>	<u>2,396,897</u>	<u>27,434</u>
Change in cash basis net assets	(190,291)	(264,355)	(454,646)	(83,154)
Cash basis net assets beginning of year	<u>1,085,080</u>	<u>1,300,179</u>	<u>2,385,259</u>	<u>92,361</u>
Cash basis net assets end of year	<u>\$ 894,789</u>	<u>1,035,824</u>	<u>1,930,613</u>	<u>9,207</u>
Cash Basis Net Assets				
Restricted:				
Employee benefits	\$ 104,834	-	104,834	-
Culture and recreation	158,337	-	158,337	-
Debt service	9,449	670	10,119	-
Other	328,672	-	328,672	-
Unrestricted	<u>293,497</u>	<u>1,035,154</u>	<u>1,328,651</u>	<u>9,207</u>
Total cash basis net assets	<u>\$ 894,789</u>	<u>1,035,824</u>	<u>1,930,613</u>	<u>9,207</u>

See notes to financial statements.

City of Pocahontas, Iowa
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2005

Exhibit B

	General	Other Nonmajor Governmental Funds	Total
Receipts:			
Property tax	\$ 305,017	264,753	569,770
Tax increment financing collections	-	16,831	16,831
Other city tax	9,494	164,199	173,693
Licenses and permits	2,005	-	2,005
Use of money and property	37,029	33,087	70,116
Intergovernmental	19,058	330,498	349,556
Charges for service	208,711	-	208,711
Special assessments	-	13,873	13,873
Miscellaneous	28,663	51,429	80,092
Total receipts	<u>609,977</u>	<u>874,670</u>	<u>1,484,647</u>
Disbursements:			
Operating:			
Public safety	207,713	37,439	245,152
Public works	183,841	161,374	345,215
Culture and recreation	171,312	16,954	188,266
Community and economic development	49,366	301,201	350,567
General government	177,968	58,588	236,556
Debt service	-	219,784	219,784
Capital projects	-	286,398	286,398
Total disbursements	<u>790,200</u>	<u>1,081,738</u>	<u>1,871,938</u>
Deficiency of receipts under disbursements	<u>(180,223)</u>	<u>(207,068)</u>	<u>(387,291)</u>
Other financing sources (uses):			
Operating transfers in	160,000	140,077	300,077
Operating transfers out	(61,077)	(42,000)	(103,077)
Total other financing sources	<u>98,923</u>	<u>98,077</u>	<u>197,000</u>
Net change in cash balances	(81,300)	(108,991)	(190,291)
Cash balances beginning of year	265,706	819,374	1,085,080
Cash balances end of year	<u>\$ 184,406</u>	<u>710,383</u>	<u>894,789</u>
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	9,449	9,449
Unreserved:			
General fund	184,406	-	184,406
Special revenue funds	-	385,684	385,684
Capital projects fund	-	165,250	165,250
Permanent fund	-	150,000	150,000
Total cash basis fund balances	<u>\$ 184,406</u>	<u>710,383</u>	<u>894,789</u>

See notes to financial statements.

City of Pocahontas, Iowa

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2005

	Enterprise Funds		Other
	<u>Water</u>	<u>Electric</u>	<u>Nonmajor</u>
Operating receipts:			
Use of money and property	\$ 1,200	-	10,165
Charges for service	332,609	1,134,521	342,002
Miscellaneous	23,391	70,511	3,643
Total operating receipts	<u>357,200</u>	<u>1,205,032</u>	<u>355,810</u>
Operating disbursements:			
Business type activities	<u>1,781,687</u>	<u>1,476,976</u>	<u>440,459</u>
Total operating disbursements	<u>1,781,687</u>	<u>1,476,976</u>	<u>440,459</u>
Deficiency of operating receipts under operating disbursements	<u>(1,424,487)</u>	<u>(271,944)</u>	<u>(84,649)</u>
Non-operating receipts (disbursements):			
Bond proceeds	1,402,431	-	-
Interest on investments	4,038	22,980	3,025
Intergovernmental	474,528	-	4,310
Debt service	<u>(82,743)</u>	<u>(111,820)</u>	<u>(3,024)</u>
Total non-operating receipts (disbursements)	<u>1,798,254</u>	<u>(88,840)</u>	<u>4,311</u>
Excess (deficiency) of receipts over (under) disbursements	373,767	(360,784)	(80,338)
Operating transfers out	<u>(37,000)</u>	<u>(121,500)</u>	<u>(38,500)</u>
Net change in cash balances	336,767	(482,284)	(118,838)
Cash balances beginning of year	<u>95,765</u>	<u>936,500</u>	<u>267,914</u>
Cash balances end of year	<u>\$ 432,532</u>	<u>454,216</u>	<u>149,076</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	670	-
Reserved for capital improvements	189,324	119,169	19,064
Reserved for capital equipment	6,496	27,998	42,309
Unreserved	<u>236,712</u>	<u>306,379</u>	<u>87,703</u>
Total cash basis fund balances	<u>\$ 432,532</u>	<u>454,216</u>	<u>149,076</u>

See notes to financial statements.

Exhibit C

Total

11,365
1,809,132
97,545
<u>1,918,042</u>

<u>3,699,122</u>
<u>3,699,122</u>

<u>(1,781,080)</u>

1,402,431
30,043
478,838
<u>(197,587)</u>
<u>1,713,725</u>

-
(67,355)

<u>(197,000)</u>

(264,355)

<u>1,300,179</u>

<u><u>1,035,824</u></u>

670
327,557
76,803
<u>630,794</u>
<u><u>1,035,824</u></u>

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The City of Pocahontas is a political subdivision of the State of Iowa located in Pocahontas County. It was first incorporated in 1870 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Pocahontas has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Pocahontas (the primary government) and one of its component units. The component unit discussed below (The Airport) is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Complete financial statements of the Airport component unit are included in this audit report. Pocahontas Community Hospital, another component unit, has not been included in these financial statements because the hospital's financial statements are prepared on the accrual basis of accounting. The hospital's audit report is audited by other auditors and is available at the hospital or at the City Clerk's office.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2005

Discretely Presented Component Unit

The Airport component unit is presented in a separate column to emphasize that

it is legally separate from the City, but is financially accountable to the City, and its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Airport is governed by a five-member board appointed by the City Council and the Airport's operating budget is subject to the approval of the City Council.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Pocahontas County Emergency Management Commission and Pocahontas County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2005

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2005

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

C. Measurement Focus and Basis of Accounting

The City of Pocahontas maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required

Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the community and economic development, debt service, and business type activities functions.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2005

(2) Cash

The City's deposits in banks at June 30, 2005 were entirely covered by federal

depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City has no investments at June 30, 2005. During the year, the City deposited excess funds in certificates of deposit.

Interest rate risk – The City's investment policy limits the investment of operating funds

(funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2005

(3) Bonds Payable

Annual debt service requirements to maturity for general obligation and revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 175,000	49,155	159,000	69,477	334,000	118,632
2007	180,000	43,467	149,000	64,430	329,000	107,897
2008	175,000	37,168	156,000	59,109	331,000	96,277
2009	165,000	30,605	163,000	53,395	328,000	84,000
2010	175,000	24,005	170,000	47,222	345,000	71,227
2011-2015	405,000	33,005	591,000	146,785	996,000	179,790
2016-2020	---	---	442,000	71,425	442,000	71,425
2021-2025	---	---	205,582	9,771	205,582	9,771
Total	<u>\$ 1,275,000</u>	<u>217,405</u>	<u>2,035,582</u>	<u>521,614</u>	<u>3,310,582</u>	<u>739,019</u>

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate electric revenue note sinking account within the enterprise funds for the purpose of making the note principal and interest payments when due.
- (c) There shall be an electric reserve fund with a minimum balance of \$90,000 set up upon issuance of the notes. If the balance is reduced below those amounts, funds shall be deposited to bring it back to the minimum required level.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2005

- (d) There shall be an electric improvement fund with a minimum balance of \$50,000 set up upon issuance of the notes. If the balance is reduced below those amounts, funds shall be deposited to bring it back to the minimum required level.
- (e) The Water Revenue Fund must produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond due in any one year.

The City of Pocahontas did not have the required minimum balance in the Electric Improvement Fund at June 30, 2005.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS),

which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$37,953, \$34,588 and \$37,497, respectively, equal to the required contributions for each year.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2005

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours accumulate and are paid only when used. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation and comp time	\$ 35,000 =====

This liability has been computed based on rates of pay in effect at June 30, 2005.

City of Pocahontas, Iowa
Notes to Financial Statements

June 30, 2005

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
General	Enterprise:	
	Water	\$ 35,000
	Sewer	25,000
	Electric	100,000
Capital Projects:		
Capital Improvements	General	5,000
Capital Equipment	General	56,077
	Enterprise:	
	Water	1,000
	Sewer	500
	Electric	1,500
	Special Revenue:	
	Road Use	30,000
Special Revenue:	Special Revenue:	
Industrial Development	TIF	5,000
	Enterprise:	
	Water	1,000
	Electric	20,000
Debt Service	Enterprise:	
	Sewer	20,000
Enterprise:	Capital Projects:	
Clinic	Capital Equipment	<u>7,000</u>
Total		<u>\$ 307,077</u> <u>=====</u>

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2005

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$49,550 during the year ended June 30, 2005.

(8) Risk Management

The City of Pocahontas is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Commitments

As of June 30, 2005, the City had the following commitments with respect to unfinished capital projects:

<u>Capital Project</u>	<u>Remaining Commitment</u>
Wastewater Treatment Plant	\$ 916,000
Water Treatment Improvements	111,428
2005 Street Project	88,220
Airport Project	5,347

The City will pay for the 2005 street project out of its road use and local option monies and will finance the water and wastewater treatment improvements from issuance of bonds and CDBG grants. The airport project will be financed by an FAA grant.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2005

(10) Subsequent Events

The City has committed to a sewer improvement project for approximately 1.7 million to be paid from issuance of revenue bonds of 1.2 million and a grant for \$500,000.

(11) Deficit Fund Balance

The Special Revenue Fund, Housing Grant Account had a deficit balance of \$57,998 at June 30, 2005. The deficit was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of federal grants.

Required Supplementary Information

City of Pocahontas, Iowa

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds, Proprietary Funds
and the Airport Authority

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>
Receipts:		
Property tax	\$ 569,770	-
Tax increment financing collections	16,831	-
Other city tax	173,693	-
Licenses and permits	2,005	-
Use of money and property	70,116	41,408
Intergovernmental	349,556	478,838
Charges for service	208,711	1,809,132
Special assessments	13,873	-
Miscellaneous	80,092	97,545
Total receipts	<u>1,484,647</u>	<u>2,426,923</u>
Disbursements:		
Public safety	245,152	-
Public works	345,215	-
Culture and recreation	188,266	-
Community and economic development	350,567	-
General government	236,556	-
Debt service	219,784	-
Capital projects	286,398	-
Business type activities	-	3,896,709
Total disbursements	<u>1,871,938</u>	<u>3,896,709</u>
Deficiency of receipts under disbursements	(387,291)	(1,469,786)
Other financing sources (uses), net	<u>197,000</u>	<u>1,205,431</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(190,291)	(264,355)
Balances beginning of year	<u>1,085,080</u>	<u>1,300,179</u>
Balances end of year	<u>\$ 894,789</u>	<u>1,035,824</u>
See accompanying independent auditor's report.		

Airport Authority <u>Actual</u>	<u>Net</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
		<u>Original</u>	<u>Final</u>	
-	569,770	573,918	573,918	(4,148)
-	16,831	17,500	17,500	(669)
-	173,693	84,794	164,794	8,899
-	2,005	3,950	3,950	(1,945)
459	111,983	77,650	77,650	34,333
596,233	1,424,627	421,125	471,125	953,502
12,514	2,030,357	2,694,140	2,694,140	(663,783)
-	13,873	-	-	13,873
26,975	204,612	54,025	74,025	130,587
<u>636,181</u>	<u>4,547,751</u>	<u>3,927,102</u>	<u>4,077,102</u>	<u>470,649</u>
-	245,152	261,850	261,850	16,698
719,335	1,064,550	1,027,595	1,038,595	(25,955)
-	188,266	193,293	213,293	25,027
-	350,567	251,750	341,263	(9,304)
-	236,556	234,325	246,325	9,769
-	219,784	166,818	166,818	(52,966)
-	286,398	1,953,500	2,996,500	2,710,102
-	3,896,709	1,718,870	1,738,870	(2,157,839)
<u>719,335</u>	<u>6,487,982</u>	<u>5,808,001</u>	<u>7,003,514</u>	<u>515,532</u>
(83,154)	(1,940,231)	(1,880,899)	(2,926,412)	986,181
<u>-</u>	<u>1,402,431</u>	<u>1,500,000</u>	<u>2,312,000</u>	<u>(909,569)</u>
(83,154)	(537,800)	(380,899)	(614,412)	76,612
<u>92,361</u>	<u>2,477,620</u>	<u>2,476,527</u>	<u>2,476,527</u>	<u>1,093</u>
<u>9,207</u>	<u>1,939,820</u>	<u>2,095,628</u>	<u>1,862,115</u>	<u>77,705</u>

City of Pocahontas, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except internal service funds and fiduciary funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,195,513 and increased budgeted revenues by \$962,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public works, community and economic development, debt service and business type activities functions.

Other Supplementary Information

City of Pocahontas, Iowa

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2005

	Special Revenue			
	Road <u>Use</u>	Employee <u>Benefits</u>	Local Option Sales <u>Tax</u>	Tax Increment <u>Fund (TIF)</u>
Receipts:				
Property tax	\$ -	141,008	-	-
Tax increment financing collections	-	-	-	16,831
Other city tax	-	2,702	159,164	-
Use of money and property	-	-	-	-
Intergovernmental	163,832	-	-	-
Special assessments	-	-	-	-
Miscellaneous	-	-	-	-
Total receipts	<u>163,832</u>	<u>143,710</u>	<u>159,164</u>	<u>16,831</u>
Disbursements:				
Operating:				
Public safety	-	37,439	-	-
Public works	44,197	30,207	86,970	-
Culture and recreation	-	16,954	-	-
Community and economic development	-	8,020	-	8,991
General government	-	58,588	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	<u>44,197</u>	<u>151,208</u>	<u>86,970</u>	<u>8,991</u>
Excess (deficiency) of receipts over (under) disbursements	<u>119,635</u>	<u>(7,498)</u>	<u>72,194</u>	<u>7,840</u>

Schedule 1

				Debt Service	Capital Projects	
<u>Industrial Development</u>	<u>Housing Grant</u>	<u>"Irma Elbert Bequest"</u>	<u>"Charlotte Lenore Zech Bequest"</u>	<u>Debt Service</u>	<u>Capital Improvement</u>	<u>Capital Equipment</u>
-	-	-	-	123,745	-	-
-	-	-	-	-	-	-
-	-	-	-	2,333	-	-
7,955	-	4,780	-	16,522	3,505	325
-	154,264	-	-	10,914	-	1,488
6,414	-	-	-	-	7,459	-
31,934	-	-	-	-	6,336	13,159
<u>46,303</u>	<u>154,264</u>	<u>4,780</u>	<u>-</u>	<u>153,514</u>	<u>17,300</u>	<u>14,972</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
71,726	204,104	8,360	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	219,784	-	-
-	-	-	-	-	114,075	172,323
<u>71,726</u>	<u>204,104</u>	<u>8,360</u>	<u>-</u>	<u>219,784</u>	<u>114,075</u>	<u>172,323</u>
<u>(25,423)</u>	<u>(49,840)</u>	<u>(3,580)</u>	<u>-</u>	<u>(66,270)</u>	<u>(96,775)</u>	<u>(157,351)</u>

(continued)

City of Pocahonats, Iowa

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2005

	Special Revenue			
	Road <u>Use</u>	Employee <u>Benefits</u>	Local Option Sales <u>Tax</u>	Tax Increment <u>Fund (TIF)</u>
Other financing sources (uses):				
Operating transfers out	(30,000)	-	-	(5,000)
Operating transfers in	-	-	-	-
Total other financing sources (uses)	<u>(30,000)</u>	<u>-</u>	<u>-</u>	<u>(5,000)</u>
Net change in cash balances	89,635	(7,498)	72,194	2,840
Cash balances beginning of year	<u>74,469</u>	<u>112,332</u>	<u>57,090</u>	<u>32,444</u>
Cash balances end of year	<u>\$ 164,104</u>	<u>104,834</u>	<u>129,284</u>	<u>35,284</u>
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	164,104	104,834	129,284	35,284
Capital project fund	-	-	-	-
Permanent funds	-	-	-	-
Reserved:				
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 164,104</u>	<u>104,834</u>	<u>129,284</u>	<u>35,284</u>

See accompanying independent auditor's report.

				Debt Service	Capital Projects	
<u>Industrial Development</u>	<u>Housing Grant</u>	<u>"Irma Elbert Bequest"</u>	<u>"Charlotte Lenore Zech Bequest"</u>	<u>Debt Service</u>	<u>Capital Improvement</u>	<u>Capital Equipment</u>
-	-	-	-	-	-	(7,000)
26,000	-	-	-	20,000	5,000	89,077
<u>26,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>5,000</u>	<u>82,077</u>
577	(49,840)	(3,580)	-	(46,270)	(91,775)	(75,274)
<u>1,262</u>	<u>(8,158)</u>	<u>7,663</u>	<u>4,254</u>	<u>55,719</u>	<u>132,017</u>	<u>200,282</u>
<u>1,839</u>	<u>(57,998)</u>	<u>4,083</u>	<u>4,254</u>	<u>9,449</u>	<u>40,242</u>	<u>125,008</u>
1,839	(57,998)	4,083	4,254	-	-	-
-	-	-	-	-	40,242	125,008
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,449</u>	<u>-</u>	<u>-</u>
<u>1,839</u>	<u>(57,998)</u>	<u>4,083</u>	<u>4,254</u>	<u>9,449</u>	<u>40,242</u>	<u>125,008</u>

(continued)

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2005

	Permanent			
	"Jean Wallace Perry <u>Memorial</u> "	"Charlotte Lenore Zech <u>Bequest</u> "	"Irma Elbert <u>Bequest</u> "	<u>Total</u>
Receipts:				
Property tax	\$ -	-	-	264,753
Tax increment financing collections	-	-	-	16,831
Other city tax	-	-	-	164,199
Use of money and property	-	-	-	33,087
Intergovernmental	-	-	-	330,498
Special assessments	-	-	-	13,873
Miscellaneous	-	-	-	51,429
Total receipts	-	-	-	874,670
Disbursements:				
Operating:				
Public safety	-	-	-	37,439
Public works	-	-	-	161,374
Culture and recreation	-	-	-	16,954
Community and economic development	-	-	-	301,201
General government	-	-	-	58,588
Debt service	-	-	-	219,784
Capital projects	-	-	-	286,398
Total disbursements	-	-	-	1,081,738
Excess (deficiency) of receipts over (under) disbursements	-	-	-	(207,068)

(continued)

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2005

	Permanent			
	"Jean Wallace Perry <u>Memorial</u> "	"Charlotte Lenore Zech <u>Bequest</u> "	"Irma Elbert <u>Bequest</u> "	<u>Total</u>
Other financing sources (uses):				
Operating transfers out	-	-	-	(42,000)
Operating transfers in	-	-	-	140,077
Total other financing sources (uses)	-	-	-	98,077
Net change in cash balances	-	-	-	(108,991)
Cash balances beginning of year	2,500	87,500	60,000	819,374
Cash balances end of year	<u>\$ 2,500</u>	<u>87,500</u>	<u>60,000</u>	<u>710,383</u>
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	-	-	-	385,684
Capital project funds	-	-	-	165,250
Permanent funds	2,500	87,500	60,000	150,000
Reserved:				
Debt service	-	-	-	9,449
Total cash basis fund balances	<u>\$ 2,500</u>	<u>87,500</u>	<u>60,000</u>	<u>710,383</u>

See accompanying independent auditor's report.

City of Pocahontas, Iowa

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2005

	Enterprise Funds		
		Meter	
	<u>Sewer</u>	<u>Deposits</u>	<u>Clinic</u>
Operating receipts:			
Use of money and property	\$ -	-	10,165
Charges for service	269,284	6,504	-
Miscellaneous	<u>3,643</u>	<u>-</u>	<u>-</u>
Total operating receipts	<u>272,927</u>	<u>6,504</u>	<u>10,165</u>
Operating disbursements:			
Business type activities	<u>319,122</u>	<u>6,086</u>	<u>53,061</u>
Total operating disbursements	<u>319,122</u>	<u>6,086</u>	<u>53,061</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(46,195)</u>	<u>418</u>	<u>(42,896)</u>
Non-operating receipts (disbursements):			
Intergovernmental	4,310	-	-
Interest on investments	3,025	-	-
Debt service	<u>(3,024)</u>	<u>-</u>	<u>-</u>
Total non-operating receipts	<u>4,311</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(41,884)</u>	<u>418</u>	<u>(42,896)</u>
Operating transfers in (out)	<u>(45,500)</u>	<u>-</u>	<u>7,000</u>
Net change in cash balances	(87,384)	418	(35,896)
Cash balances beginning of year	<u>222,897</u>	<u>8,646</u>	<u>36,371</u>
Cash balances end of year	<u>\$ 135,513</u>	<u>9,064</u>	<u>475</u>
Cash Basis Fund Balances			
Reserved for capital improvements	\$ 19,064	-	-
Reserved for capital equipment	42,309	-	-
Unreserved	<u>74,140</u>	<u>9,064</u>	<u>475</u>
Total cash basis fund balances	<u>\$ 135,513</u>	<u>9,064</u>	<u>475</u>

See notes to financial statements.

Schedule 2

<u>Internet</u>	<u>Total</u>
-	10,165
66,214	342,002
-	3,643
<u>66,214</u>	<u>355,810</u>
<u>62,190</u>	<u>440,459</u>
<u>62,190</u>	<u>440,459</u>
<u>4,024</u>	<u>(84,649)</u>
-	4,310
-	3,025
-	(3,024)
<u>-</u>	<u>4,311</u>
<u>4,024</u>	<u>(80,338)</u>
<u>-</u>	<u>(38,500)</u>
4,024	(118,838)
<u>-</u>	<u>267,914</u>
<u>4,024</u>	<u>149,076</u>
-	19,064
-	42,309
4,024	87,703
<u>4,024</u>	<u>149,076</u>

City of Pocahontas, Iowa

Schedule of Indebtedness

Year ended June 30, 2005

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds:			
G.O. refunding bonds			
Series 2001	Nov 1, 2001	3.00-4.40%	\$ 1,715,000
Revenue bonds:			
Electric	Apr 15, 2002	2.75-4.10%	\$ 900,000
Water	Apr 6, 2004	3.00%	1,418,582
Sewer	Jul 7, 2004	3.00%	12,000

See accompanying independent auditor's report.

Schedule 3

Balance Beginning <u>of Year</u>	Issued During <u>Year</u>	Redeemed During <u>Year</u>	Balance End of <u>Year</u>	Interest <u>Paid</u>	Interest Due and <u>Unpaid</u>
<u>\$ 1,440,000</u>	<u>-</u>	<u>165,000</u>	<u>1,275,000</u>	<u>54,518</u>	<u>-</u>
745,000	-	80,000	665,000	31,520	-
-	1,418,582	60,000	1,358,582	26,261	-
-	12,000	-	12,000	324	-
<u>\$ 745,000</u>	<u>1,430,582</u>	<u>140,000</u>	<u>2,035,582</u>	<u>58,105</u>	<u>-</u>

Bond Maturities- General Obligation Bonds

June 30, 2005

Year Ending <u>June 30,</u>	General Obligation	
	Refunding Bonds Series 2001	
	Issued November 1, 2001	
	Interest	
	<u>Rates</u>	<u>Amount</u>
2006	3.25 %	\$ 175,000
2007	3.50	180,000
2008	3.75	175,000
2009	4.00	165,000
2010	4.05	175,000
2011	4.10	180,000
2012	4.15	125,000
2013	4.30	50,000
2014	4.40	50,000
Total		<u>\$ 1,275,000</u>

See accompanying independent auditor's report.

Bond Maturities - Revenue Bonds

June 30, 2005

Electric Revenue Bonds					Sewer Revenue Bonds				
Series 2002					Series 2004				
Issued April 15, 2002					Issued July 7, 2004				
Year Ending	Interest				Interest				
<u>June 30,</u>	<u>Rates</u>			<u>Amount</u>	<u>Rates</u>			<u>Amount</u>	
2006	3.75	%	\$	85,000	3.00	%	\$	12,000	
2007	4.00			85,000	3.00			-	
2008	4.15			90,000	3.00			-	
2009	4.35			95,000	3.00			-	
2010	4.50			100,000	3.00			-	
2011	4.60			105,000	3.00			-	
2012	4.70			105,000	3.00			-	
Total			\$	665,000			\$	12,000	

Water Revenue Bonds					
Series 2004					
Issued April 23, 2004					
Year Ending	Interest				<u>Total</u>
<u>June 30,</u>	<u>Rates</u>			<u>Amount</u>	
2006	3.00	%	\$	62,000	159,000
2007	3.00			64,000	149,000
2008	3.00			66,000	156,000
2009	3.00			68,000	163,000
2010	3.00			70,000	170,000
2011	3.00			72,000	177,000
2012	3.00			74,000	179,000
2013	3.00			76,000	76,000
2014	3.00			78,000	78,000
2015	3.00			81,000	81,000
2016	3.00			83,000	83,000
2017	3.00			86,000	86,000
2018	3.00			88,000	88,000
2019	3.00			91,000	91,000
2020	3.00			94,000	94,000
2021	3.00			96,000	96,000
2022	3.00			99,000	99,000
2023	3.00			10,582	10,582
Total			\$	1,358,582	2,035,582

See accompanying independent auditor's report.

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Three Years

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:			
Property tax	\$ 569,770	582,771	555,410
Tax increment financing collections	16,831	5,506	-
Other city tax	173,693	57,090	9,604
Licenses and permits	2,005	5,978	2,065
Use of money and property	70,116	79,805	79,939
Intergovernmental	349,556	217,340	216,267
Charges for service	208,711	197,975	193,299
Special assessments	13,873	23,054	4,699
Miscellaneous	<u>80,092</u>	<u>57,168</u>	<u>86,519</u>
Total	<u>\$ 1,484,647</u>	<u>1,226,687</u>	<u>1,147,802</u>
Disbursements:			
Operating:			
Public safety	\$ 245,152	235,853	249,267
Public works	345,215	330,161	368,997
Culture and recreation	188,266	172,439	151,623
Community and economic development	350,567	537,037	15,591
General government	236,556	215,623	226,590
Debt service	219,784	225,130	217,100
Capital projects	<u>286,398</u>	<u>34,135</u>	<u>88,181</u>
Total	<u>\$ 1,871,938</u>	<u>1,750,378</u>	<u>1,317,349</u>

See accompanying independent auditor's report.

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Program Expenditures</u>
Direct:			
U.S. Department of Transportation Airport Improvement Program	20.106	3-19-0076-01	\$ <u>552,763</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grant/State's Program	14.228	03-HSG-093	179,481
Community Development Block Grant/State's Program	14.228	03-WS-072	474,528
Community Development Block Grant/State's Program	14.228	03-WS-077	<u>4,310</u>
			<u>658,319</u>
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources State Revolving Loan Fund	66.458	---	<u>10,000</u>
Total			\$ <u><u>1,221,082</u></u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Pocahontas and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with Government Auditing
Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pocahontas, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated July 18, 2005. Our report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. Our opinion was qualified since the transactions of the Pocahontas Hospital were not included. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Pocahontas' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Pocahontas' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial

statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-05, II-B-05 and II-C-05 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pocahontas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Pocahontas and other parties to whom the City of Pocahontas may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Pocahontas during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Cornwell, Frideres, Maher & Associates, P.C.
Certified Public Accountants

July 18, 2005

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Pocahontas, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2005. City of Pocahontas' major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of the City of Pocahontas' management. Our responsibility is to express an opinion on the City of Pocahontas' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Pocahontas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Pocahontas' compliance with those requirements.

In our opinion, the City of Pocahontas complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the City of Pocahontas is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Pocahontas' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted matters involving the control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Pocahontas' ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable conditions are described as items III-A-5 and III-B-05 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-05 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Pocahontas and other parties to whom the City of Pocahontas may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Cornwell, Frideres, Maher & Associates, P.C.
Certified Public Accountants

July 18, 2005

City of Pocahontas, Iowa
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Part I: Summary of the Independent Auditor's Results:

- (a) A qualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over a major program was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were CFDA number 14.228 – Community Development Block Grants/
State's Program and CFDA number 20.106 – Airport Improvement Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Pocahontas did not qualify as a low-risk auditee.

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-05 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, posting of cash receipts to the cash receipts journal, and the preparation of deposit slips for utility billing are all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - Based upon the size of our office staff, duties are segregated to the greatest extent possible.

Conclusion - The City should utilize administrative personnel to provide additional control through a review of financial transactions and reports.

II-B-05 Segregation of Duties - Airport - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the airport financial statements are prepared by the person responsible for posting receipts and disbursements. This person also reconciles the bank account.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, we recommend that the Airport Commission review its control procedures to obtain the maximum internal control possible under the circumstances.

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Response - We will investigate possible alternatives.

Conclusion - Response accepted.

- II-C-05 Approval of Airport Invoices – It was noted that the airport commissioners did not approve each individual disbursement for the airport construction project.

Recommendation – Each individual disbursement should be reviewed and approved. This will document that all change-orders are approved.

Response – We felt that as the project was approved, we did not have to approve each individual payment. We will change our procedures in the future.

Conclusion – Response accepted.

- II-D-05 Segregation of Duties - Community Center - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the same person writes checks, signs checks, posts receipts and disbursements and reconciles the bank account. Also prenumbered receipts are not utilized.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, we recommend that the Community Center Board review its control procedures to obtain the maximum internal control possible under the circumstances. Prenumbered receipts should be utilized to help insure proper control over cash receipts.

Response - We will investigate possible alternatives.

Conclusion - Response accepted.

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

CFDA Number 20106 Airport Improvement Program Pass-through Agency Number 3-19-0076-01

Federal Award Year: 2003

Department of Transportation

III-A-05 Segregation of Duties over Federal Receipts – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-B-05.

III-B-05 Approval of Airport Invoices – The Airport commissioners did not approve each individual disbursement for the Airport Construction Project. See item II-C-05.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-05 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

IV-B-05 Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the public works, community and economic development, debt service and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should be amended in sufficient amounts before the disbursements exceed the budget.

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Response – The budget will be amended in sufficient amounts in the future, if applicable.

Conclusion – Response accepted.

IV-C-05 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

IV-D-05 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-05 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jeff Johnson, City Treasurer, Shareholder of Jeff Johnson, A.P., P.C.	Monthly accounting for airport	\$ 3,386
Al Henrickson, Employee Owner of Poky Graphics	Contractual Services	110
Tom Hoopingardner, Employee, Owner of H & H Tree Service	Tree trimming	734
Brooks Taylor – Council Member Editor of Record Democrat	Newspaper printings	5,704
Gus Holzmuehler – Council Member Owner of Pocahontas Ford	Auto Repairs and Autos	37,460
Kent Wood – Council Member 14% Owner of Wood’s Supermarket		2,155

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with H & H Tree Service, Poky Graphics, and Wood's Supermarket, do not appear to represent conflicts of interest since the total transactions with each were less than \$2,500 during the fiscal year. The transactions with the City treasurer and Pocahontas Ford do not appear to represent conflicts of interest since they were entered into through competitive bidding. The transaction with the newspaper does not appear to represent a conflict of interest since a resolution was passed naming The Record Democrat as the official newspaper. Taylor didn't vote on this resolution.

IV-F-05 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that coverage is adequate for current operations.

IV-G-05 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-H-05 Deposits and Investments - No instances of non-compliance with the deposit and investments provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-I-05 Revenue Bonds – At June 30, 2005, the City of Pocahontas did not have sufficient funds in its Electric Improvement Fund as required by the bond resolution.

Recommendation – City officials should transfer funds so the minimum balance of \$50,000 is in the Electric Improvement Fund.

Response – We will do this.

Conclusion – Response accepted.

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

IV-J-05 Financial Condition – The Special Revenue Fund, Housing Grant Fund had a deficit balance at June 30, 2005 of \$57,998.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – The deficit was due to construction costs incurred prior to receipt of a federal grant. The deficit will be eliminated upon receipt of the grant.

Conclusion – Response accepted.

IV-K-04 Telecommunications Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.